Long-Term Services and Supports Trust Commission Meeting

October 20, 2020

Washington State Department of Social & Health Services
Transforming lives

Employment Security Department
WASHINGTON STATE

Washington State Health Care Authority

Zoom Controls

Zoom Controls

Meeting Guidelines

Commission Members	Observers
• Please turn on video • Stay muted unless talking • Encourage active participation • Raise hand to speak if necessary • Participate in polls	• Please keep video off • Please mute audio • Please observe, but don’t interact with meeting • Okay to participate in polls • Sign up in Chat tool if you wish to comment.

Welcome & Introductions

- Commission member introductions
  - Name and organization/representation

Shared mindfulness exercise afterward

Meeting Goals

1. Approve Administrative Expenses Report
2. Answer questions about Milliman report
3. Discuss margins and risk tolerance
4. Provide feedback on Draft OSA Report on LTSS Trust Solvency
5. Get report out from workgroup on tribal participation
6. Get report out from workgroup on non-participation and adverse selection
7. Review and provide feedback on the draft Commission Recommendations Report and decide what recommendations will be made
8. Establish agenda for the next meeting in December

Consent Agenda

- Minutes from 9/30/2020 Commission meeting
- Approve Administrative Expenses Report

Unfinished Business

None

New Business Part 1

Final Milliman Report, Margins & Risk Tolerance, Draft OSA Report

Final Milliman Report

- Questions and Answers

Long-Term Services and Supports Trust Actuarial Study

October Commission Meeting

Al Schmitz, FSA, MAAA

OCTOBER 20, 2020

Milliman

Margins and Risk Tolerance

- Challenge of managing LTSS risk over the long-term
- Risk management framework
- Appropriate level of margin / risk tolerance

Challenge of Managing LTSS Risk

Examples of Other LTSS Program Experience with Long-Term Projections

- **Private Insurance**

Los Angeles Times

Column: She's 82. The cost of her long-term care insurance just went up 80%

MILWAUKEE BUSINESS JOURNAL

Long-term care coverage issued by Time Insurance at risk, Wisconsin regulator takes action

- **CalPERS**

Benefit reductions, price hikes coming for CalPERS long-term care insurance plans

THE SACRAMENTO BEE

CalPERS faces 'very serious risk' in $1.2 billion long-term care case, judge warns

- **Federal Long Term Care Insurance Program (FLTCIP)**

The Washington Post
Democracy Dies in Darkness

Costs skyrocket for feds' long-term-care insurance

FLTCIP Enrollees Facing an Average 83% Rate Hike for Long Term Care Insurance

Michael Wald   Pay & Benefits   Comments (71)
July 18, 2016 4:21 PM

Challenge of Managing LTSS Risk

- Why is managing LTSS risk challenging? Is LTSS Trust Program different?
  - Persistency (primary reason for rate increases)
    - LTSS Trust Program has no lapses, but does have out-migration
  - Morbidity (when assumptions not aligned with risk)
    - LTSS Trust Program is new program, opt-in and opt-out
  - Investment Income (many policies sold assuming higher long term rates)
    - Starting with lower interest rate environment for LTSS Trust Program
  - Timing (difficult to balance credibility of early experience, also regulatory hurdles can be complicating)
    - Timing a potential challenge, but credibility of experience may build quickly
- Many long-term assumptions in LTSS Trust Program that will need to be diligently monitored

Risk Management Framework

- Diligent Monitoring and Appropriate Action
  - Funded status of the program
    - 75 year static (end in 2097) or rolling (always 75 years) projection
    - Interim periods
  - Revenue
    - Comparison of early revenue to expected
    - What data available to drill down into demographic and other splits
  - Benefits
    - Not until 2025, but similar data drill down considerations
  - Investment Income
    - Comparison to expected
  - Administration
    - How administrative / operational decisions impact program finances
- Develop plan for taking action

Risk Tolerance / Margin

- Trade-Offs
  - Significant Margin
    - Financially stronger program - future changes may result in increased benefits
    - Early cohorts benefit less than later cohorts
  - Minimal Margin
    - Higher risk of needing to lower benefits and / or increase premium
    - Early cohorts may benefit more than later cohorts

- Key program parameters still being finalized including:
  - Investment Strategy
  - Private insurance opt-out
  - Self-employed opt-in
  - Benefit eligibility trigger
  - Elimination period

Margin Examples

- Situation 1
  - Assumptions different than expected
  - Margin covers deviation
  - No action? Restore minimum level of margin?
- Situation 2
  - Assumptions different than expected
  - Margin does not cover deviation
  - Actions to cover shortfall? Restore minimum level of margin?

Caveats and Limitations

The information provided in this presentation has been prepared for the internal use of the Washington State Office of the State Actuary (OSA) and Washington State Department of Social and Health Services (DSHS), and it should not be distributed, in whole or in part, to any external parties without the prior permission of Milliman. We do not intend this information to benefit or create a legal liability to any third party. This communication must be read in its entirety.

This information provides considerations for a risk management framework for the WA LTSS Trust Program. It may not be appropriate, and should not be used, for other purposes. This information is provided as a draft for discussion purposes only and should not be relied upon. All numbers are subject to change.

In completing this analysis, we relied on information provided by OSA, DSHS, and publicly available data, which we accepted without audit. We accepted without audit but reviewed the information for general reasonableness. Our summary may not be appropriate if this information is not accurate.

Many assumptions were used to construct the estimates in this presentation. Actual results will differ from the projections. Experience should be monitored as it emerges and corrective actions taken when necessary.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Al Schmitz is a member of the American Academy of Actuaries and meets the qualification standards for performing the analyses in this presentation.

The terms of the Personal Services Contract with Washington State OSA effective February 26, 2020, apply to this information.

Milliman

Thank you!

OSA Report on LTSS Trust Solvency

Presentation to: LTSS Trust Committee Meeting

Matthew Smith, State Actuary

October 20, 2020

Background/Reminder

- Per Chapter 50B.04.030 RCW, the Office of the State Actuary is responsible for providing recommendations to the Commission and the Legislature on actions necessary to achieve and maintain trust solvency
- First report due by the end of this year
- OSA report to be contained within a section of a larger report from the Commission
- Initial OSA report will look different than subsequent reports due to the emerging details and definition of the program

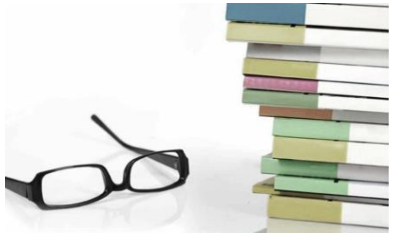
Commission Action Today

- Opportunity to provide feedback on the draft report included in the meeting materials
- Based on your feedback, OSA will finalize and submit the report by the end of the year

Additional Background on OSA Recommendations

Based on the current draft report, OSA offers 5 recommendations at this time

1. **Clarify key program parameters**
2. **Clarify the investment policy** through work with the WSIB
3. **Perform an updated Baseline analysis** reflecting input from the prior bullets
4. **Establish a risk management framework** consistent with the program's financial goals
5. **Establish a funding policy** consistent with the above



Clarify Key Program Parameters

- The parameters that Milliman expects to have the most impact on solvency include
  - Private insurance opt-out, self-employed opt-in, elimination period, and benefit trigger
- There are other key program parameters the Commission will review
- Clarifying these parameters will improve future actuarial modeling to better define expected costs and revenue
- Opportunity to reduce or eliminate potential adverse selection by limiting or eliminating current choice provided in opt-out and opt-in features
- Reducing potential adverse selection lowers the risk that future premium revenue will be insufficient to cover program costs

Clarify the Investment Policy

- With a better definition of expected costs and revenue, the WSIB can rely on that analysis to select an optimal investment policy
- With an investment policy in place, we can improve the actuarial modeling to better estimate anticipated investment income
- As noted in Milliman’s most recent analysis, small changes in assumed investment returns can have significant impacts on required premium rates and future program solvency

Perform an Updated Baseline Analysis

- Incorporating updated costs and revenue will likely change the premium rate required to cover all future estimated costs so it is important to re-assess the program's solvency once the key decisions from the prior recommendations are made
- This updated Baseline analysis becomes the basis for establishing a risk management framework and funding policy
  - Also informs decisions on any proposed changes to benefit provisions

Establish a Risk Management Framework

- Supports the attainment of the program's financial goals
  - For example, a goal of ensuring the program has sufficient assets to pay benefits when due and, to the extent feasible, premiums paid by future beneficiaries remain an equitable share in relation to the benefits they receive
- Components of a risk management framework may include
  - Identification of Risks
  - Measurement and Assessment
  - Mitigation of Risks
  - Reporting and Monitoring
  - Coordination of Risk Management Roles/Responsibilities

Components of a Risk Management Framework

Identification of Risks

- What are the key or core risks that potentially threaten the program’s financial goals?
- Milliman’s recent report represents a good starting point in this area

Measurement and Assessment

- What’s the likelihood and potential impact of these key or core risks?

Mitigation of Risks

- Based on the above, decide on which risks to eliminate or reduce, and which ones to keep
- You’ve already begun work in this area by responding to the adverse selection risk identified by Milliman
- Other key risks will include investment risk, less than anticipated wage growth and above expected program benefit utilization

Components of a Risk Management Framework *(Continued)*

Reporting and Monitoring

- How often should the program report on these risks and monitor risk exposure?
- Current law specifies actuarial reporting every 2 years
- How often will WSIB report on investment risk?
  - WSIB provides quarterly performance reports for the state pension systems
- How often will other partner agencies report on premium collection and benefit payments?

Coordination of Risk Management Roles/Responsibilities

- Program governance is shared among multiple agencies or entities
  - For example, ESD, DSHS, HCA, OSA, WSIB, LTSS Commission, LTSS Council, PFC, and the Legislature
- To the extent feasible, how do you best coordinate risk management roles and responsibilities across these entities?
- A lack of adequate coordination could lead to actions inconsistent with program goals

Establish a Funding Policy

- Provides a framework for the financing of program benefits consistent with the program's financial goals and risk management plan
- Two examples
  - If the approach is to retain sufficient "margin" below the 0.58% maximum premium rate in current law, OSA would evaluate future program costs relative to that target
  - On the other hand, if the approach is to retain the 0.58% premium rate (a "fixed rate" plan) and adjust future benefit levels or other program parameters that affect benefit spending, OSA would evaluate future program costs relative to that target
- In practice, the working funding policy will likely fall between these two approaches and where that point lands could vary over time depending on future circumstances
  - However, you may have a general preference for one approach over the other

Questions? Please Contact: The Office of the State Actuary

leg.wa.gov/OSA; state.actuary@leg.wa.gov

360-786-6140, PO Box 40914, Olympia, WA 98504

Matthew Smith

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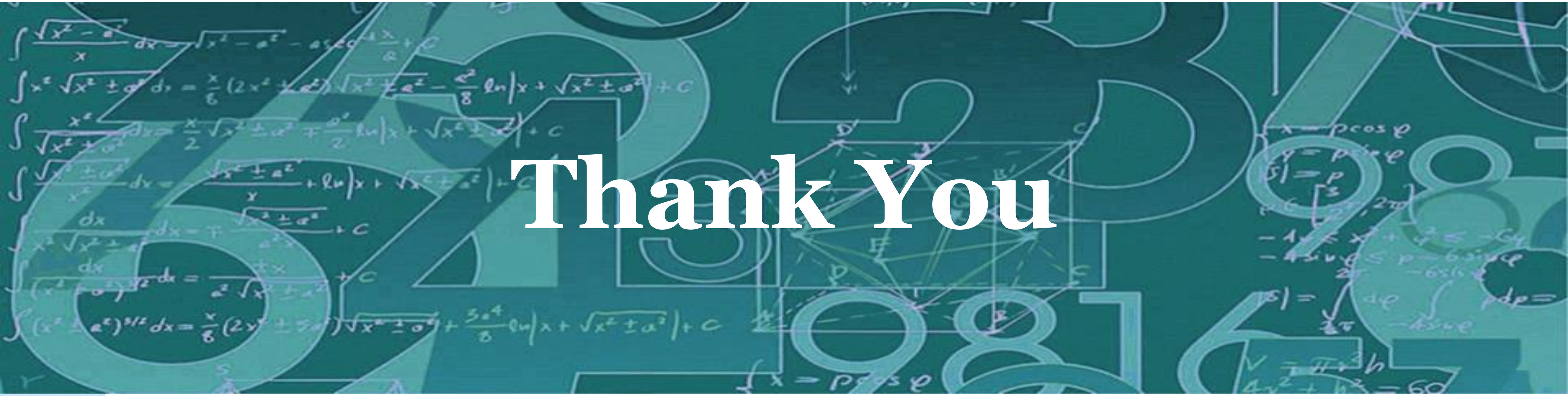

Break

New Business
Part 2

Workgroup Report Outs

Workgroup Report Outs

- Tribal participation
- Non-participation and adverse selection
  - LTC insurance opt-out
  - Self-employed opt-in

Tribal Participation

- RCW 50B.04 “Employer” does not include tribal governments, nor an option for tribal employers to opt-in
- Impacts approximately 31,000 employees of the 29 tribes who are unable to participate in the LTSS Trust
- Working group of DSHS and HCA Tribal Liaisons, American Indian Health Commission, Governor’s Office, and ESD staff developed options
- Explored three potential pathways for participation at Indian Policy Advisory Committee meetings
- Statute change required for all options

Tribal Participation

Recommended Options:

- **Option 1**: Tribal employer opt-in
  - Covers all employees of tribes that choose to opt-in
  - Leave employees of tribes that do not choose to opt-in uncovered
- **Option 2**: Tribal employee permanent opt-in
  - Covers individual employees of tribes when they take action to opt-in
  - Individual employees need to remit premiums to ESD
- **Option 3**: Tribal employer opt-in, and tribal employee permanent opt-in for non-participating tribes
  - Covers all employees of tribes that choose to opt-in
  - Covers individuals employees of tribes when they take action to opt-in

Non-Participation and Adverse Selection

LTC Insurance Opt-Out

- RCW 50B.04.085 allows an employee who attests that they have long-term care insurance to apply for an exemption from paying the LTSS Trust premium.
- An exempt employee may not become a qualified individual or eligible beneficiary and is permanently ineligible for the LTSS Trust benefit.
- ESD must accept applications for exemptions only from October 1, 2021, through December 31, 2022.
- ESD is not required to verify the attestation of an employee that they have long-term care insurance, but is also not prohibited from doing so.
- Legislative intent was to grandfather in people who were paying for LTC insurance at the time the legislation was enacted

Non-Participation and Adverse Selection

LTC Insurance Opt-Out – Risks

- **Solvency:** Plausible opt out scenarios would cause program to forgo healthier workers and highest contributors, leaving risk pool of people more likely to need LTC but able to contribute less. This increases premium rate required to cover program costs for those who remain.
- **Administrative cost of processing exemption requests:** Administering opt out in addition to administering core program is duplicative with associated costs.
- **Administrative cost of coping with overpayments by employers:** An employee who opts out must inform every employer over course of her career that she opted out of the LTSS Trust; if she forgets to do so, or if the employer does not process her paperwork properly, her employer(s) will remit premiums to the Trust for workers who did not owe premiums, resulting in an overpayment issue affecting both the employer and the employee and with which ESD would likely need to cope (although not required to do so by statute)

Non-Participation and Adverse Selection

LTC Insurance Opt-Out – Risks (Continued)

- **Administrative cost of additional outreach:** If participation in the Trust is voluntary, the program will need to launch communications campaign to convince every worker in the state that this is a better deal for them than opting out. The cost of that communications campaign is many times that which would be required in a program with a grandfathered opt out.
- **Consumer protection:** Low or middle income workers may opt out because they view this as a voluntary tax or because they don't expect to need LTC, but may end up needing assistance in old age and being unprotected. They may also be marketed inexpensive policies, opt out, and then experience over time that these policies become unaffordable, have to drop them, and be unprotected. Premiums start low for healthy, young workers and tend to go up over time. The most recent NAIC report on the State of the LTCI Market found that the average annual LTCI premium in 2015 was $2,772 (based on an analysis of 7,341 policies sold in 2015).
- **Public support and take up:** if the program becomes perceived as a program for low- and middle-income but not high-income workers, this pushes its public perception close to that of a welfare program, reducing public support, willingness to pay, and take-up of benefits.

Non-Participation and Adverse Selection

LTC Insurance Opt-Out – Options

All options would require a statute change.

- **Recommended Option:** Limit opt-out to those who had LTC insurance prior to enactment of LTSS Trust
  - Meets legislative intent
  - Eliminates a significant solvency/premium risk factor
- **Backup Options**
  - Limit opt-out to equivalent coverage (as with PFML employer opt-out) (perhaps use aggregate benefit levels or premium as proxy)
    - Protects consumers
    - Increases administrative costs to evaluate type of coverage
  - Limit opt-out to individual LTC policies (excluding employer-paid coverage, that is typically dropped when worker changes jobs, and excluding life insurance policies that have a LTC rider)
    - Increases administrative costs to evaluate type of coverage
  - Require recertification of coverage periodically
    - Increases administrative costs

Non-Participation and Adverse Selection

LTC Self-Employed Opt-In

- RCW 50B.04.090 allows self-employed individuals to elect LTSS Trust coverage.
- Self-employed individuals may withdraw from coverage at such times as ESD adopts by rule so scope may exist in rulemaking to put conditions on when they may withdraw coverage.
- ESD must adopt rules for determining the hours worked and the earnings of self-employed individuals who elect coverage so scope may exist in rulemaking to put guardrails around compliance.

Non-Participation and Adverse Selection

LTC Self-Employed Opt-In – Risks

- **Solvency:** All plausible self-employed opt-in scenarios would cause the program to forgo significant revenue without corresponding savings on the benefit side because most self-employed can still vest eventually while contributing based on only a fraction of their lifetime net income. Equity problem vis-à-vis W2 workers who pay in on 100% of lifetime wages. This free-rider problem requires the premium for the program as a whole to be several basis points higher than it needs to be.
- **Administrative cost of processing requests to opt in and out of coverage:** Administering opt-in and opt-out requests by the self-employed in addition to administering the Trust program itself is a duplicative administrative burden with associated costs.

Non-Participation and Adverse Selection

LTC Self-Employed Opt-In – Risks (Continued)

- **Administrative cost of additional outreach:** If participation in the Trust is voluntary for the self-employed, the program will need to launch a communications campaign to convince every self-employed individual in the state of the benefits of opting into the program and fully participating.
- **Consumer protection:** Self-employed individuals may not participate because they view this as a voluntary tax or because they don't expect to need long-term care, but they may end up needing assistance and being unprotected.
- **Public perception:** If the program is perceived as a program that can be gamed (e.g. by reclassifying income) and in which not everyone participates, this is likely to reduce public support.

Non-Participation and Adverse Selection

LTC Self-Employed Opt-In – Options

The workgroup is still meeting and will present its recommendations at the meeting on October 20.

New Business
Part 3

Draft Commission Recommendations Report

Draft Commission Recommendations Report

- Coverage for adults disabled before the age of 18
- Requirements to be a qualified individual
- Tribal participation
- Non-participation and adverse selection
  - LTC insurance opt-out
  - Self-employed opt-in

Coverage for Adults Disabled Prior to Age 18

<u>Whether and how to extend coverage</u>

- **Recommended Option**: Extend coverage to all adults with disabilities that onset prior to age 18 by removing the restriction in RCW 50B.04.010(6)
  - Eliminates inequity for individuals that work and administrative complexity
  - Increases premium needed to cover benefits by 0.01% or 0.02%

  Other options
- **Option 2**: Extend coverage to all adults with disabilities that onset prior to age 18 who do not have a pre-existing LTSS need by clarifying the definition of 'disabled' in agency rules or statute.
  - Increases administrative complexity, equity issues remain
  - No direct impact on solvency
- **Option 3**: Do not extend coverage, no change in statute
  - Increases administrative complexity, equity issues remain
  - No direct impact on solvency

Requirements to be a Qualified Individual

When deeming a person to be a qualified individual under RCW 50B.04.050, (1)(b) three years within the last six years, consider…

- **Recommended Option**: At the time an individual applies for benefits, assuming an application occurs when someone needs assistance with activities of daily living (ADL)
  - No impact on solvency, implement with statute change or agency rules
  - Covers individuals with an LTSS need during their working years, does not cover individuals nearing retirement

  Other options:
- **Option 2**: At any time when an individual inquires about their vesting status regardless of when their ADL needs occur
  - Increases premium assessment required by approximately 0.01%
  - Covers most people nearing retirement in 2025 and individuals with a need for LTSS during their working years
- **Option 3**: Only for individuals born before 1960, at any time when an individual inquires about their vesting status regardless of when their ADL needs occur
  - Increases premium assessment required by less than 0.01%
  - Covers some people nearing retirement in 2025, not those with a need for LTSS during their working years

Tribal Participation

Recommend RCW 50B.04 change to allow:

- **Option 1**: Tribal employer opt-in
  - Covers all employees of tribes that choose to opt-in
  - Leave employees of tribes that do not choose to opt-in uncovered
- **Option 2**: Tribal employee permanent opt-in
  - Covers individual employees of tribes when they take action to opt-in
  - Individual employees need to remit premiums to ESD
- **Option 3**: Tribal employer opt-in, and tribal employee permanent opt-in for non-participating tribes
  - Covers all employees of tribes that choose to opt-in
  - Covers individuals employees of tribes when they take action to opt-in

Non-Participation and Adverse Selection

LTC Insurance Opt-Out – Options

- All options would require a statute change
- **Recommended Option:** Limit opt-out to those who had LTC insurance prior to enactment of the LTSS Trust
  - Meets legislative intent
  - No impact on premium level

Other Options:

- **Option 2:** Limit opt-out to equivalent coverage (as with PFML employer opt-out) (perhaps use aggregate benefit levels or premium proxy)
  - Protects consumers
  - Increases administrative costs to evaluate type of coverage
- **Option 3:** Limit opt-out to individual LTC policies (excluding employer-paid coverage, that is typically dropped when worker changes jobs, and excluding life insurance policies that have a LTC rider)
  - Increases administrative costs to evaluate type of coverage
- **Option 4:** Require recertification of coverage periodically
  - Increases administrative costs

Non-Participation and Adverse Selection

LTC Self-Employed Opt-In – Options

This workgroup is still meeting and will presents its options at the meeting on October 20.

Public Comment

- Please indicate your interest in making a public comment in the Chat tool
- Each person has 2 minutes to address the Commission
- The Commission receives input, but does not generally respond to comments
- Please unmute and turn on your video when recognized by the Chair or the facilitator

Set Agenda for December Meeting

- December 3, 2020, 2-5 pm
- Potential topics for December meeting:
  - Approve LTSS Trust Commission Recommendations Report due 1/1/2021
  - Discuss 2021 Commission meeting schedule and activities
  - LTSS Trust Council
  - Investment Strategy Subcommittee Update
  - Form Technology Subcommittee
  - SJR8212 outcome
  - Agency Decision Packages

Wrap-Up

- Review action items
- Adjourn meeting

Thank You